

Fixing Health Care Budgets: Options and Approaches

Kenneth E. Thorpe, Ph.D.

Robert W. Woodruff Professor and Chair
Department of Health Policy and Management
Rollins School of Public Health
Emory University



Approaches

- Premium-based approaches
 - Hard cap
 - Soft cap
- Provider-based approaches
 - Hospitals
 - Physicians
 - Pharmaceuticals



Premium Based Approaches

- Hard cap approach: inputs
 - Inflation /growth factor
 - Enforcement mechanism
 - Tools used by plans to control costs



Premium Based Approaches

- Hard cap example
 - Premium growth allowed = 5%
 - Actual premium growth = 7% in 2005
 - Allowed increase in premium in 2006
 - = Inflation trend – (50% * 2)
 - = Inflation trend – 1%



Premium Based Approaches

- How do plans stay within trend?
 - Use Medicare fee schedules with Medicare payment updates or own negotiated rates
 - Fee schedule for non-Medicare payers set to achieve trend target



Premium Based Approaches – Soft Target (the Main League Baseball and National Basketball Association Model)!

- Establish premium target growth rate
- Plans pay an assessment for each percentage point growth over the cap
- Assessment used by the state to fund Medicare
- Use 3-4 year moving target for establishing compliance with the cap



Provider Based Approaches

- Tie commercial payments to growth rate in Medicare.
- All-payer rate setting (excluding Medicare).
- Develop state-wide sector budgets for hospital, physician, pharmaceutical spending (adjust for case mix, volume).
- Hospitals exceeding targets get smaller allowable increases next year.
- Use reimportation and rate-setting for pharmaceuticals.
- Tie physician payment increases to changes in Medicare RVS.

